

BETTER UTILITIES AND A BETTER CITY

FREQUENTLY ASKED QUESTIONS

Q. What are the benefits of transferring the City's water and wastewater utilities to Citizens Energy Group?

A. Transferring the City of Indianapolis' (City) water and wastewater utilities to Citizens Energy Group (Citizens) is the right choice for the City. Citizens will keep our community's water systems under local, public ownership to be managed like a not-for-profit for community benefit.

Citizens is a utility industry leader in customer satisfaction and operational excellence according to independent studies by organizations including J.D. Power & Associates. The transfer to Citizens will ensure outstanding service at rates approximately 25 percent lower by the year 2025 than any other option presented to the City. Lower rates improve the City's quality of life, while encouraging job creation and economic growth for many years to come. Finally, the transfer will protect the interests of all utility customers, while providing the City with more than \$425 million for much needed infrastructure investments such as improvements to streets, sidewalks, bridges, curbs, parks and make critical infrastructure.

Q. Who would approve the transfer of the water and wastewater assets to Citizens and how long will the process take?

A. The Mayor intends to file legislation for the utility transfers with the Indianapolis City-County Council on April 16, 2010. In addition to approval by the City-County Council, the utility transfer must be approved by the Board of Waterworks, the Board of Public Works and the Indiana Utility Regulatory Commission. Full approval would likely take place in late 2010.

Q. How much does Citizens intend to pay for the transfer of the water and wastewater systems, how was the value of the systems calculated and how will the transfer be financed?

A. Pending Board of Waterworks, Board of Public Works, City-Council Council and IURC approval, the City will receive more than \$425 million in connection with the transfer of the utilities to Citizens. Upon receipt of necessary approvals and negotiation of final agreements, the City will receive a payment from Citizens in the amount of \$262.6 million (\$170.6 paid at closing and \$92 million paid on October 1, 2011), plus up to an additional \$50 million from the wastewater general fund that will remain with the City upon the transfer of the wastewater system.

In addition, the proposed transfer will increase the annual payment in lieu of property taxes (PILOT) as a result of the significant capital spending associated with the Wastewater System. The City will monetize the increase of PILOT payments in the form of a bond issuance with anticipated proceeds of \$140 million, with such proceeds used by the City to fund necessary infrastructure improvements (with Citizens assuming the obligation to pay the increased PILOT). In addition, Citizens agrees to assume approximately \$1.5 billion of City debt (combined debt of waterworks and wastewater).

Q. How does your proposal lead to reduced rates for customers? Will rates decline from current levels, or will the rate of increase simply be lower under your proposal?

A. Water and wastewater rates will go up under every scenario the City considered during the Request for Expression of Interest and its own research conducted with the assistance of the Infrastructure Advisory Commission. Rates will go up primarily due to necessary infrastructure investments, including those required under a Consent Decree with the U.S. Environmental Protection Agency.

Citizens would provide the lowest rates of all the options available to the City as a result of several factors:

- First, lower rates are achieved because Citizens operates like a not-for-profit only for the benefit of customers and the community, rather than having to focus on quarterly profits and dividends as investor-owned utilities must do. Selling or leasing the water and wastewater assets to an investor-owned company would result in higher rates.
- Second, lower rates under Citizens are achieved through approximately \$40 million in annual savings from operational coordination and shared services among the combined gas, steam, chilled water, water and wastewater utilities. No other option available to the City could produce savings anywhere close to this number.
- Third, lower rates are achieved because Citizens has access to tax-exempt financing which lowers the cost of capital compared to investor-owned utilities.

Q. Will Citizens pay for the transfer of the water and wastewater systems by raising rates for gas or thermal customers?

A. Transferring the water and wastewater utilities will not result in increased natural gas or thermal rates. Instead, it is anticipated that more than \$40 million in annual savings will be achieved by combining water, wastewater, gas, steam and chilled water systems under Citizens. Each utility under the Citizens umbrella would continue to be regulated separately by the Indiana Utility Regulatory Commission.



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Q. The water and wastewater utilities are now suffering from years of under investment in infrastructure. How well-maintained is Citizens' utility infrastructure and is Citizens committed to making the proper investments in the water and wastewater infrastructure moving forward?

A. Citizens has very well-maintained natural gas, steam and chilled water systems. In fact, its gas system was ranked among the best of 10 peer utilities for operations and maintenance metrics in a recent utility benchmarking study conducted by the IURC and the Indiana Office of Utility Consumer Counselor. Citizens is committed to making all of the necessary investments in the water and wastewater utility infrastructure to ensure system reliability and compliance with federal environmental mandates. Specifically, Citizens will make the necessary investments to solve the City's combined sewer overflow problem that results in raw sewage flowing into the White River and other streams during rainfall events and heavy snow melts.

Q. What body will govern the new water and wastewater entity after the transfer to Citizens? Will there be adequate public accountability with Citizens running the water and wastewater systems?

A. Citizens Energy Group is governed by a five-member, non-partisan Board of Trustees and a seven-member, non-partisan Board of Directors as established in Indiana Code 8-1-11.1-1. According to the statute, the trustees' exclusive function is to make nominations for vacancies to both boards and "nominees shall be appointed by the mayor of the consolidated city (Indianapolis) within 10 days after receiving such nominations." The Board of Directors has primary oversight for the current management and long-term direction of the company.

The Citizens Energy Group Board of Directors and Board of Trustees are fully accountable to state and local elected officials, regulators and of course, customers. Our boards strongly consider input from elected officials because they represent the owners of the Trust – the citizens of our community. Made up of 12 accomplished citizens of Marion County, Citizens' Boards include retired and current leaders of corporations, such as Eli Lilly and Company, and major nonprofit organizations, like Goodwill Industries (see list below). Board members receive modest compensation for their service. Further accountability is ensured because Citizens is regulated by the Indiana Utility Regulatory Commission and other agencies including the Indiana Department of Environmental Management and U.S. EPA.

Citizens Energy Group Board of Trustees:

- Board President Daniel F. Evans, President and CEO, Clarian Health Partners
- Board Secretary Dr. Gerald L. Bepko, Trustee's Professor Indiana University School of Law
- Dennis Bland, President, Center for Leadership Development
- Kathryn G. Betley, civic leader and community volunteer

Citizens Energy Group Board of Directors:

- Board President Martha D. Lamkin, Retired President and CEO, Lumina Foundation for Education
- Board Treasurer Lawrence A. O'Connor, Jr., Interim Director and CEO Indianapolis Museum of Art, Executive Director Butler Business Accelerator
- Board Secretary Dorothy J. Jones, Former President, BOS Community Development Corp.
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- James M. McClelland, President, Goodwill Industries of Central Indiana, Inc.
- Anita J. Harden, Retired President, Community Hospital East.

Q. Why should elected officials give up direct control of our community's water systems?

A. History teaches us that sometimes it is better for elected officials to give up direct control of certain functions. In 1887, Indianapolis community leaders, including Colonel Eli Lilly, created the Citizens Public Charitable Trust, now

Citizens Energy Group, to protect the community's natural gas system from takeover by profit-driven monopolies and from the uncertainties of changing political forces. Rather than being managed as part of the political process, the publicly-owned trust is managed by a non-partisan board of directors that ensures the utility is operated like a not-for-profit only for community benefit. Over the past 123 years, Citizens has become an industry leader for customer satisfaction and operational excellence, according to independent studies by organizations including J.D. Power & Associates.

Today, our community is having much the same debate concerning our water and wastewater utilities, which are experiencing unmanageable rate increases and financial instability. The proposed transfer of the water and wastewater utilities to Citizens heeds the lessons of history by taking politics out of public utilities and keeping these vital assets under local, public ownership, to be managed by professional utility operators only for community benefit.

Q. Veolia and United are experienced managers of water and wastewater utilities around the country and the world. Are Citizens personnel qualified to run water and wastewater systems?

A. No company in Central Indiana has as much diversified utility operating experience as Citizens. Its senior management team has a combined 150 years of utility leadership experience here in Central Indiana. Also, no other utility company in Central Indiana has a longer track record of operational excellence and customer satisfaction as Citizens. Citizens operates the nation's second-largest district energy system that transports steam and chilled water to buildings throughout the Downtown area. The company also has operated a wastewater treatment plant at its former Indianapolis Coke Plant on Prospect Street, so Citizens personnel are not strangers to the work at hand. Citizens would retain key expertise at all of the utilities to ensure service excellence.

Q. How will the utilities be combined?

A. Please keep in mind that the memorandum of understanding announcement is just the first step in the process. Before the water and wastewater utilities are combined, the agreement must be approved by the Board of Waterworks, the Board of Public Works, City-County Council and the Indiana Utility Regulatory Commission. The transfer is expected to close by the end of the calendar year. In the months leading to the close, the City, Citizens, Veolia Water and United Water will work together to define the most effective ways to combine the businesses. All are committed to ensuring that, through this transition period, customers see no deterioration in service quality.

Q. What will Veolia and United's role be in the new combined utility operations?

A. Citizens expects that Veolia and United will continue to have significant roles in the operations of the water and wastewater utilities. Currently, Citizens is working closely with Veolia and United as it plans the future operations of the utilities with a focus on capturing an estimated \$40 million in annual operating synergies that have been identified.

Q. Veolia and United have strong records for hiring minority and women-owned business partners. Is Citizens committed to supplier/vendor diversity?

A. As a major purchaser of goods and services, Citizens is committed to increasing opportunities for local small businesses including minority- and women-owned suppliers. The public charitable trust endeavors to build long-lasting relationships with our suppliers, as they are important components of our success.

Q. Charitable organizations have expressed concern that support they currently receive from Veolia and United Water will be reduced or eliminated should the water and wastewater systems be transferred to Citizens. Should local nonprofit organizations have this concern?

A. While it is too early to determine the contributions budget of the combined utilities, Citizens will maintain a substantial community investment program. In just the past 10 years, Citizens has put nearly \$50 million of revenue from its non-utility companies back into the community to fund gas customer rate reductions, low-income energy assistance, home weatherization programs, community redevelopment projects and donations to a wide range of non-profit organizations.